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Finding out what fear is all about

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"My powers are ordinary. Only my application brings me success" Isaac Newton

Many years ago I was told that if I found myself uttering the phrase that 'investment was easy' I should sell all my outstanding positions and go and sit in a darkened room and have a think about it all. These words came back to me a few days ago when I came across some information about the investing habits of one of the UK's true historic geniuses Sir Isaac Newton, the mathematician, astronomer, theologian, physicist... and almost bankrupt investor.

Whilst the laws of motion and universal gravitation are necessarily precise, the world of investment is not. It is true that the underlying fundamentals do generally prevail over time but over the shorter-term, emotional values centred around fear and greed are hugely important. An investor who enjoys some success over time versus reputable benchmarks or peer groups has undoubtedly showed some element of mastery of both aspects. Newton got caught up in one of the original stock market manias - the South Sea Company bubble - and after originally making a good return, plunged back in near to the top of the euphoria and ultimately crystallised losses so large they almost bankrupted him.

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Today we have the burgeoning interests in cryptocurrencies, most notably bitcoin. We have also racked up in November an unprecedented, in modern financial history, eleventh successive month within one calendar year of gains for the MSCI All Country World Index. The previous record was nine in 2003 - which those of you with a few grey hairs will remember as the year that the technology and related sector 'bust' started to turnaround. The technology sector has of course been in the vanguard of global stock market progress in 2017 to date.

Europe did not have an easy November however, with the broad aggregate European index down over 2% and with the UK specifically an important contributor to this. Viewed from a macroeconomic and geopolitical perspective, the downbeat UK Budget, the realities around the Bank of England's decision to edge up interest rates (and guiding towards the potential of a couple more to follow over the next two years) and news of a breakdown in negotiations between German Chancellor Angela Merkel's party and her proposed coalition partners to form the next German government, added to the uncertainty.

These may have been among the more commented upon big picture stories, but below these headlines and news of new highs in other global stock markets and asset classes there was a really big and important shift. Finally, a different type of share started to become more important in European markets, particularly in the UK. The road to Brexit is both controversial and deeply detailed but both 'remainers' and 'leavers' would acknowledge that the second half of November did show some progress in the ongoing talks. The realities on such progress (or not) on matters including the 'divorce bill' and

*An affiliate of Raymond James & Associates and Raymond James Financial Services the Irish border question will become more apparent during December's upcoming meetings between the UK and the European Union. However, in the investment world the material fear factor apparent particularly in UK domestic related shares started to abate a little. More broadly in November across the pan-European markets is was unusual to see sectors including telecoms, energy and utilities near the top of the performance charts, whilst information technology, consumer discretionary and industrials relatively lagged. That smells like some growing confidence that factors like European Union dynamic reform initiatives are continuing to make progress, as suggested by the efforts of President Macron in France and the clear need for Chancellor Merkel in Germany to create a positive political legacy.

Exchange rates were also influential here, with the Pound (in particular) and the Euro making some progress. The former regained the 1.35 level against the US dollar by the end of November which, given the angst surrounding both the Bank of England's opinions and the UK Budget economic projections as well as hopes in the United States about tax reform, would have seemed almost impossible. It is funny what can happen when global fund management surveys for months now have shown both UK assets and the Pound right at the bottom of the popularity table. It is like an apple falling from a tree... and inspiring a great thought.

The critical thought as we move towards the end of 2017 and into 2018 is that you can take little for granted in global investment markets. Strategically, I except the better performing markets and regions from a stock market perspective will come from those who reform the most versus current expectations (with the whole 'Brexit debate' and the interlinked domestic political stability being the dynamic reform element for the UK). More generally, the importance of being specific is rising. Sir Isaac Newton may have been caught out by a stock market bubble, but heeding his wise words quoted overleaf will help any investor. Knowing what you are investing in and why will matter more in 2018 than it has this year, because funnily enough the All Country World Index is not going to go up every month, every year.

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